

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 TRSE-00 EB-11 FTC-01 DRC-01

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4166

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E.O. 11652: N/A

TAGS: EFIN, AR

SUBJECT: NEW TAX LEGISLATION

1. ADMINISTRATION RECENTLY SUBMITTED TO CONGRESS NEW PACKAGE
TAX LAWS WHICH WOULD SUBSTANTIALLY MODIFY CURRENT TAX STRUCTURE
AND RATES. NO INDICATION YET OF LIKELIHOOD OF PASSAGE OF VARIOUS
BILLS. NATIONAL TAX DIRECTOR SOUTHEIX, WHO EXPLAINING AND DEFEND-
ING TAX PACKAGE BEFORE CONGRESS OVER LAST SEVERAL DAYS, TOLD
EMBOFFS IN MEETING THAT MAJOR PURPOSE OF LEGISLATION TO REDISTRI-
BUTE TAX BURDEN IN FAVOR LOWER CLASSES, SIMPLIFY REGULATIONS AND
ADMINISTRATION AND REDUCE EVASION. HE DID NOT EXPECT NEW LAWS
WOULD RESULT IN LARGE INCREASE GOV'T REVENUES TO REDUCE SIZABLE
FISCAL DEFICIT. FOLLOWING IS SUMMARY OF IMPORTANT POINTS CON-
TAINED IN PROPOSED LEGISLATION OBTAINED FROM SEVERAL SOURCES.
EMBASSY WILL SUBMIT MORE DETAILED ANALYSIS FOLLOWING REVIEW OF
TEXTS OF LAWS. VALUE ADDED TAX WOULD BECOME EFFECTIVE 1/1/75;
OTHER TAXES PROPOSED FOR 1/1/74.

1) VALUE ADDED TAX TO REPLACE CURRENT SALES TAX. RATE WOULD BE
16 PERCENT OR 23 PERCENT DEPENDING ON COMMODITY. METHOD OF
ADMINISTRATION NOT YET KNOWN.

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2) CURRENT CAPITAL GAINS TAX ELIMINATED. FUTURE CAPITAL GAINS

TAXED AT SAME RATE AS INCOME FROM OTHER SOURCES.

3) PERSONAL INCOME TAX EXEMPTIONS AND DEDUCTIONS GENERALLY RAISED SO THAT APPROXIMATELY FIRST 60,000 PESO ANNUAL INCOME TAX FREE. UNDER PROPOSED LEGISLATION, LARGE PERCENTAGE ARGENTINE SALARIED WORKERS WOULD PAY NO INCOME TAX. SCHEDULE ITSELF MADE SLIGHTLY MORE PROGRESSIVE. 7 PERCENT FIRST 5,000 PESOS TAXABLE INCOME, 48 PERCENT TAXABLE INCOME ABOVE 120,000 PESOS PA.

4) CORPORATE INCOME TAX RATE REDUCED FROM CURRENT 33 PERCENT TO 22 PERCENT. HOWEVER, RETENTION RATE ON DIVIDENDS PAID ABROAD (OR DISBURSED LOCALLY) RAISED FROM 12 PERCENT TO 32 PERCENT. EFFECTIVE CORPORATE TAX RATE BECOMES 47 PERCENT, OR 61 PERCENT WITH 30 PERCENT SURCHARGE WHICH SCHEDULED TO REMAIN IN EFFECT 1974.

5) ROYALTIES, INTEREST, PAYMENT TECHNICAL SERVICES RETENTION RATE INCREASED FROM 42 PERCENT TO 47 PERCENT. PAYMENTS OF THIS NATURE NOT ALLOWED AS BUSINESS EXPENSE DEDUCTION WHERE "ECONOMIC LINK" EXISTS BETWEEN LOCAL ENTITY AND FOREIGN INSTITUTION.

6) STOCK MARKET INCENTIVE REGULATION, UNDER WHICH TAXPAYER ALLOWED TO INVEST UP TO 10 PERCENT OF TAXES DUE GOVERNMENT IN STOCK MARKET, EXTENDED, ALTHOUGH AT SLIGHTLY REDUCED LEVEL.

7) STOCK TRANSACTIONS SUBJECT TO NEW REGISTRATION PROCEDURES DESIGNED TO CLEARLY IDENTIFY HOLDER OF STOCK AND RECIPIENT OF DIVIDENDS. NEW REGULATION WOULD ELIMINATE ANONYMITY OF STOCK-HOLDER IN ARGENTINA WHICH NOTORIOUS SOURCE TAX EVASION.

8) PROMISSORY NOTE ISSUANCE IN FUTURE WILL BE CONTROLLED AND REGULATED BY PUBLIC ENTITY IN EFFORT REDUCE BLACK MARKET LENDING ACTIVITIES AND TAX EVASION ON HIGH RATES INTEREST RECEIVED.

9) CORPORATE NET WORTH TAX AND NET ESTATE TAX COMBINED INTO SINGLE NET WORTH TAX AT SLIGHTLY REDUCED RATE.

10) TECHNICAL EDUCATION TAX AND SPECIAL TAX ON AUTOMOBILES WOULD BE ELIMINATED.

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